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Evidence from Japanese Firms

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Abstract

This study examines the influence of foreign ownership on the corporate social performance (CSP) of Japanese firms in a business environment characterised by globalisation and rapidly changing ownership structures. Using new CSP indices related to stakeholder relationships, the results of our analyses show that the relationship between foreign ownership and CSP is positive and more pronounced than the relationship between domestic ownership and CSP. Furthermore, we find the increase in foreign ownership enhances CSP. Of the individual CSP attributes we evaluated, foreign investors are more concerned with employee relations, while domestic investors have not demonstrated these concerns. These findings suggest that foreign investors motivate Japanese firms to improve CSP by motivating firms to reconsider and change their corporate social responsibilities (CSR). Our results imply that foreign investors play an important role in shifting Japanese corporate governance from the traditional insider-oriented structure to a structure that is characterized by greater openness and transparency.

Keywords: Corporate social performance; corporate social responsibility; foreign investors; stakeholder relations; stock ownership structure.

JEL Classifications: M14, G34, G32

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1. Introduction

Given the globalisation of business and widespread changes in organisational ownership structures in the last decade, information related to the social and environmental elements of corporate activities has become indispensable for valuating a corporation. Related to this, it has become increasingly important for corporate managers of global businesses to understand the association between financial performance and corporate social responsibility (CSR) activities and the ways in which this relationship shapes corporate social performance (CSP) in a corporate governance framework.

Numerous studies in the domain of strategic corporate management have argued for an alignment of business objectives with CSR by facilitating the firm's adaptation to a constantly changing society and corporate environment. Some studies have focused on profit-driven methods of CSR by exploring societal business opportunities, improving organisational efficiency by reducing conflicts between stakeholders, and enhancing employees' motivation so that they are rewarded for shareholders (e.g., Cochran and Wood, 1984; Griffin and Mahon, 1997; Hillman and Keim, 2001; Jensen, 2001; McGuire et al, 1988; Waddock and Graves, 1997). Other studies have focused on uncertainty and risks derived from information asymmetry in the market (Aupperle et al., 1985; Boutin-Dufresne and Savaria, 2004; Ghoul et al., 2011; Goss and Roberts, 2011; McGuire et al., 1988; Menz, 2010; Spicer, 1978; Ullmans, 1985).

Stakeholder theory provides a useful theoretical framework of corporate governance for linking businesses' responsibilities with corporate value creation. Conflicts between corporate stakeholders' objectives impede corporate value creation and exacerbate information asymmetry among shareholders. Recently, it has become important for corporate governance studies to explore the effects of changing ownership structures on corporate social performance to address issues related to the development of global businesses and ultimately increase cross-border investment (Cox and Schneider, 2010; Dam and Sholtens, 2012; Mahoney and Roberts, 2007; Neubaum and Zahra, 2006).

To this end, this study represents an attempt to utilize stakeholder theory to explore the relationship between ownership type and CSP in the Japanese context. More specifically, the purpose of this study is to examine the influence of foreign ownership (relative to domestic ownership) on CSP and the attributes of Japanese firms in the late 2000s. The globalisation of business ownership structures has given foreign investors a dynamic role in transforming the traditional insider-oriented corporate governance structure to a more open and transparent structure by motivating firms alter the ways in which they manage stakeholders and relate with shareholders.

In the late 1990s, cross-shareholdings among business corporations and financial intermediaries began to dissolve (Miyajima and Kuroki, 2007) and foreign investors became a key group of shareholders in the Japanese stock market. Some domestic institutional investors voiced dissent against corporate management of their investees, but major institutional investors (e.g., pension funds) remained silent and maintained a short-term bias during the prolonged economic downturn (Suto and Toshino, 2005). Under these conditions, foreign investors may have been faced with substantial

information costs in the market and weak corporate governance among potential investee firms (Miyajima and Nitta, 2011). Given this, we seek to address whether changing patterns of ownership in the late 2000s motivated firms to change their corporate governance strategies such that they were less insider-oriented and more transparent.

To answer this question, we performed this study in a series of interrelated steps. First, we carefully distinguished foreign investors' preference for high-CSP firms from their capacity to positively affect CSP. Because of insufficient disclosure practices in the Japanese market, some foreign investors may prefer to invest in high-CSP firms as a means to reduce agency costs and improve short-term value. However, long-term foreign investors, typically pension funds that engage in value-enhancing strategies, can positively affect CSR (which relates to corporate value) and related disclosures. To accurately describe the effect of ownership on CSP, we used data from Japanese firms from 2007 to 2011 when foreign investors became major players in the Japanese market. These data include the firms' respective CSP levels, increases in CSP over time, and ownership structures. To control for potential endogeneity between stock ownership structure and the CSP of the firm, we applied a two-stage least square regression model for the entire dataset, as well as four subperiod datasets, to investigate effects of three-year changes in ownership on changes in CSP in the same subperiods.

Second, to distinguish the ways in which different types of firm owners affect corporate stakeholder management, we constructed CSP dimensional measures based the relationship between the firm and its stakeholders because there are no useful extant data related to CSP for the purposes of this study. We then integrated these dimensional measures into a composite measure of CSP. As CSP is a multi-faceted concept that reflects a firm's relationship with its stakeholders, mechanisms intended to integrate stakeholder management with corporate performance are similarly multi-dimensional.

These regression models produced some interesting results. First, they revealed a positive relationship between current foreign ownership and level of CSP, thereby suggesting that foreign shareholders generally prefer to invest in firms that are effective in terms of CSP. To investigate influences of changes in ownership on enhancement of CSP, we divided the entire period into four three-year sub-periods. Our results showed that increasing the degree to which a Japanese firm owned by foreign investors can improve the firms' CSP. This stands in sharp contrast to Japanese firms characterised by domestic ownership. These results collectively indicate that (a) foreign investors prefer high-CSP firms, and (b) increasing foreign ownership can motivate a firm's management to engage in CSR activities and CSP-related disclosures, both of which can enhance the firm's overall value.

Among the five CSP dimensions we identified, foreign investors are most centrally concerned with employment policies related to diversity, work-life balance, and handicapped and aging workers. However, domestic corporate investors seem to be unconcerned or negatively inclined towards those attributes of employment policy. In general, domestic corporate investors are less sensitive to CSR than foreign investors and instead concentrate primarily on the firm's financial performance. Although

individual investors who are concerned with successful CSP seem to be on the rise, these investors fail to collectively affect corporate management.

Taken together, these results suggest that there exist significant gaps in perception between foreign and domestic investors in relation to CSR. These results also indicate that foreign investors play an important role in improving a firm's CSP and the degree to which Japanese firms disclose CSP-related information. These results have important implications for firms characterised by both insider-oriented and relation-based organisational structures.

To address the issues outlined above in greater detail, the remainder of the paper is organised in a series of interrelated sections. In Section 2, we offer a review of salient literature related to the relationships between ownership structure, CSR practices, and CSP. Then, we present this study's research objectives and the hypotheses we use to address them in Section 3. In Section 4, we explain our methods for constructing the CSP indices and selecting our sample. We also summarise some preliminary results in this section. In Section 5, we describe and execute regression analyses on the relationship between ownership structure and CSP. Section 6 elaborates on that which is described in the previous section, and provides some policy implications for the development of CSR practices. We also describe the limitations of this study and some avenues of future research that derive from it.

2. Ownership Structure and Investor Behaviour

2.1. Literature Review

Corporate social responsibility (CSR) is a core topic within the domain of corporate governance of global businesses (Brickley et al., 2003; Deakin and Hobbs, 2007; de Graaf and Stoelhorst, 2013). Within the domain of corporate governance, CSR represents a mechanism for aligning corporate management with the interests of stakeholders by promoting sustainability rather than exclusively seeking to enhance shareholder value. Managerial decisions that do not account for stakeholders' concerns may harm a firm's long-term competitiveness, increase business risk, damage employees' motivation, diminish the firm's reputation, and reduce clients' trust in the firm. Failure to incorporate stakeholder input into the development of CSR practices may also amplify financial risks if investors perceive a firm's socially irresponsible behaviour to be an indicator of greater uncertainty related to its future CFP. Empirical research on the association between CFP and CSP using a governance framework provides businesses with practical insight regarding how firms' roles in society take shape in the interactions with their stakeholders (de Graaf and Stoelhorst, 2013). A number of scholars have undertaken empirical research related to the link between CSP and CFP (see Cochran and Wood, 1984; Griffin and Mahon, 1997; Hillman and Keim, 2001; McGuire, et al., 1988; McWilliams and Siegel, 2000, 2001; McWilliams et al., 2006; Waddock and Graves, 1997).

As ownership by pension funds and other institutional investors has increased in prevalence, research within the domain of corporate governance has increasingly

focused on the influence of institutional ownership on corporate managers' decision-making (Changani and Damanpour, 1991). The significant relationship between CSP and CFP makes it important to investigate whether ownership structure affects corporate social performance. Numerous empirical studies on the relationship between institutional shareholding and CSP have been performed since the 1990s. Coffey and Fryxell (1991) found institutional ownership to positively influence board diversity, but failed to identify an effect on charitable giving. Graves and Waddock (1994) identified a positive association between the number of institutional owners of a firm and that firm's CSP. Johnson and Greening (1999) found pension fund ownership to be positively related to the human relations and products dimensions of CSP.

Generally, these studies have tended to find that in the US and the UK markets, there exists a positive relationship between institutional shareholdings and CSP. Mahoney and Roberts (2007) extended this line of research by utilising data from Canadian firms and identified a significant positive relationship between the number of institutional investors in a firm's stock and firm's integrated corporate social performance. Dam and Scholtens (2012) similarly evaluated types of ownership and CSP among firms in 16 different European countries. They found that increased shareholdings by banks and institutional investors do not significantly affect CSP, but shareholdings by employees, individuals, and firms negatively affect a firm's CSP. Further, Dam and Scholtens (2013) found a firm's ownership concentration to be negatively associated with its CSR. In this way, their results suggested that large shareholders (e.g. pension funds) may be stimulated to perform well with respect to CSR. Taken in concert, these studies show that different types of firm ownership can differentially affect CSR activities (and CSP).

Different types of investors have different investment strategies. For instance, despite the fact that the objectives institutional investors pursue are varied, investment strategies that incorporate social, environmental, or other non-financial criteria in investment decision-making processes are prevalent among them. These investors include 'value-based investors' who act in accordance with deeply held ethical views, 'value-seeking investors' who use social and environmental data to improve portfolio performance, 'value-enhancing investors' who use shareholder activism techniques to enhance investment value by focusing primarily on corporate governance, and investors targeting some other specific concern (Kurtz, 2008). The early years (i.e. 1970s-1980s) of the socially-responsible investment (SRI) movement in the developed countries, particularly the United States, was largely religiously, socially, and politically value-based. In the 2000s, this approach to SRI permeated among long-term investors, particularly public pension funds. Global institutional investors who are concerned with CSP have diversified.

Long-term institutional investors' decision-making behaviours are subject to various pressures that arise from regulatory constraints and customer demands. In the UK, the 2000 revision of the Pension Funds Act requires that controllers of pension funds disclose their policy for socially responsible investment within their formal Statement of Investment Principles. Under this regulation, SRI has spread among institutional

investors in the UK, and has consequently influenced pension investors' decision-making in Europe. As a result, the association between CSP and CFP has come to the forefront of discussions related to shareholders' behaviours in relation to institutional investors, particularly in developed countries.

Cox et al. (2004) distinguished patterns of institutional shareholding between long-term institutional investors and short-term institutional investors and investigated differences in relationship types with regard to socially responsible behaviour in large UK companies between 2001 and 2002. Their results suggest that shareholding by long-term institutional investors or pension funds is positively related to CSP. Using the same data, Cox et al. (2008) also examined the relationship between multidimensional CSP and pension ownership and found that UK pension funds tend to emphasise employee-focused aspects of CSP. Cox and Schneider (2010) compared preference for CSP for 'US-domiciled' and 'UK-domiciled' pension plans in the UK stock market. They found that whereas UK pension plans emphasise the importance of workplace practices and environment, US pension plans stress CFP. These results suggest that a regulatory framework of institutional investment is a critical factor for promoting certain CSR activities.

Within the literature on the growth of social investment, many studies have examined conflicts between shareholders' activities and managers' view of CSP. Neubaum and Zahra (2006) examined the relationship between shareholder activism and coordination on the degree to which executives support CSP. Using data from Fortune 500 companies from 1995 to 2000, they found that socially active investors exerted a positive influence on CSP. Their results suggest that long-term shareholdings may foster exchange relations between shareholders and corporate executives to develop CSP. Moreover, their results indicate that coordination among stakeholders can reduce conflicts with executives and enhance corporate value. Barnea and Rubin (2010) evaluated managers' incentives to engage in activities related to CSR and examined the relationship between ownership structure and CSR expenditures. Their results suggest that insider ownership may induce firms to over-invest in CSR, which can exacerbate conflicts of interest among shareholders.

Some studies have emphasised the agency perspective of ownership structure under information asymmetry among different types of investors. For example, Dhaliwal et al. (2011) explored firms' voluntary disclosure of CSR among large US companies. They found that institutional investors dedicated to CSR are more likely than transient investors and quasi-indexers to reduce cost of capital by adopting monitoring and governance roles.

Many researchers have explored the tendency for CSR activities to reduce the risk with which corporate managers are confronted (Aupperle et al., 1985; Boutin-Dufresne and Savaria, 2004; Godfrey et al., 2009; McGuire et al., 1988). Some recent studies have investigated the relationship between CSP and risk premiums evaluated in financial markets. For instance, El Ghouli et al. (2011) examined the relationship between CSP and costs of capital for US firms. They found that firms with better CSP are associated with lower costs of capital. This result suggests that perceptions of CSP

held by major investors in corporate stock markets can influence multiple aspects of CSR by publicly owned firms.

Taken together, past research in this domain suggests that because CSR-related activities influence corporate value through various channels, external shareholders (e.g. institutional investors, foreign investors) can drive corporate managers to improve their firms' CSP and increase the degree to which they engage in related disclosures.

2.2. Ownership Structure and Domestic Investors in Japan

Corporate ownership in Japanese companies typically takes the form of insider holdings or cross-shareholdings based on long-term business relationships. These relationship-based shareholdings may mitigate information asymmetry among firms and financial institutions, but increase information asymmetry with outside shareholders.

This unique feature of ownership structure has changed drastically since the late 1980s when the bubble economy burst and financial business slumped. In parallel with a decline in cross-shareholding among Japanese firms, the performance of long-term institutional investors (e.g. pension funds) has become a growing topic of interest in an aging society. Moreover, foreign investors have emerged as major shareholders since the 1990s, when globalisation of business and financial liberalisation proliferated in conjunction with worldwide growth of capital flow and cross-border diversification of portfolio investments (Ahmadjan, 2007). In the late 2000s, foreign pension funds concerned with the socially responsible practices of investees extended their investments to Japanese firms and began to behave as active shareholders.¹ As a result, during this decade, foreign ownership became remarkably diversified in the Japanese market.

Table 1 presents stock ownership at market value from 1985 to 2012 as illustrated by data from the Tokyo Stock Exchange (TSE) database. In 1990, foreign investors accounted for 4.7% of shareholding of Japanese firms. This figure rose to 18.8% by 2000, and peaked at 28% in 2006. After a temporary drop resulting from the global financial crisis in 2008, foreign ownership grew to 28% in 2012. In contrast, shareholding by commercial banks and insurance companies has sharply declined since 1985 and accounted for 3.8% for commercial banks and 5.7% for insurance companies (9.5% combined) in 2012. Shareholdings by business corporations declined but still accounted for 21.7% in 2012. Meanwhile, shareholding by trust banks (comprised of investment trust accounts and pension fund accounts) held around 18% in the late 2000s. Taken together, these figures demonstrate that between 2000 and 2012, domestic corporate shareholding, including shareholding by business corporations and financial institutions, fell from 60.2% to 48.9%. Shareholding by individuals, which includes various types of direct holdings by individual investors, also held steady at about 20% throughout the 2000s.

[Table 1 about here]

¹ For example, in 2008, Norway public pension fund expressed to have increased in investment toward Japanese firms and to continue the policy. (Nikkei News Paper, 28 December 2008)

Since the early 2000s, domestic pension funds have gradually come to recognize corporate governance by institutional shareholders (Omura et al., 2002). In 2001, the Pension Fund Association (PFA) unveiled their policy for shareholder voting and began to execute voting rights on stocks of its in-house portfolio management. Still, pension fund managers have faced increasing pressure from customers who demand significant positive performance of their investments in the prolonged stagnant economy. Suto and Toshino (2005) found that fund managers of institutional investments demonstrated a short-term bias, and when faced with pressure from customers, tended to engage in herding behaviours. These biases seem to contradict fund managers' roles as monitors for corporate value in the long-term. Therefore, in the 2000s, when foreign investors played a more prominent role in the Japanese market and some of them behaved as active shareholders of the Japanese firms, domestic institutional investors remained silent and appeared to emphasise value-seeking rather than value-enhancing.

2.3. CSR and CSP in Japan

As cross-border portfolio investment has continued to grow, institutional investors have generally showed a preference for firms with low transaction costs or high liquidity (Gompers and Metrick, 2001) and have generally chosen large, esteemed firms rather than firms that are small or poorly governed as targets for investment (Leuz et al., 2009). Moreover, institutional investors demonstrate a home-country bias in selecting targets for investment (Choe et al., 2005; Leuz et al., 2009). Many studies have found that US investors show a strong preference for disclosure and transparency. As such, they tend to avoid insider-trading systems, peculiar relationships, and weak stockholder protection (Aggarwal et al., 2005; Kang and Stulz, 1997; Kho et al., 2006; Leuz et al., 2009). Therefore, foreign investors tend to invest in firms with good corporate governance, high social trust, and a good reputation to circumvent problems associated with information asymmetry.

Using data from Japanese firms between 1991 and 2008, Miyajima and Nitta (2011) examined the relationship between shareholding and the features of firm governance. They found that the way in which a board of directors is structured with respect to shareholders' interests is a primary determinant of foreign ownership. This suggests that foreign investors pay a premium for firms with more independent directors. This finding was largely consistent with past research, as foreign investors exhibited a home-country bias and preferred strong corporate governance in investing in the Japanese stocks.

If information asymmetry between domestic corporate shareholders and foreign investors remains significant in the Japanese market, foreign investors tend to gravitate towards large firms with high global credit rankings and positive social reputations to reduce information costs. In the late 2000s, with gradual institutional extension of non-financial disclosure², large companies sought to strengthen their investor relations

² In 2006, the Tokyo Stock Exchange required listed companies to disclose a Corporate Governance Report. In 2008, the Financial Instruments and Exchange Act required corporations to submit Internal Control Reports to the Ministry of Finance.

(IR) and began to issue CSR reports voluntarily. Despite these voluntary activities and legislation related to CSR, the transparency of Japanese firms remained insufficient from a global perspective (Asian Corporate Governance Association, 2008; Stewart and Yermo, 2010). Japanese pension funds were recommended to show a greater concern for non-financial issues as a means to improve long-term performance (Stewart and Yermo, 2010).

In Japan, SRI, which is calculated on the basis of explicit CSR policy, is extremely small given the size of the Japanese economy.³ In addition, the Japanese SRI market is headed by a handful of individual-based investment funds that show a concern for environmental preservation and the provision of aid to developing countries. Only a limited number of pension funds demonstrated a concern for CSR in their investment decisions in the late 2000s⁴. Insufficient information related to CSR activities (and their effects in different financial environments) serves only to reinforce fund managers' scepticism in relation to SRI⁵.

The fact that the SRI market is small does not indicate that Japanese corporations are ignorant of social and environmental issues that relate to the performance of their businesses. Traditional Japanese corporations are characterised by ethical self-discipline or CSR policy that is passed down in the business over generations⁶. Some key concepts of CSR, including the assurance of product quality, the contribution to social causes, and the provision of employment to the community, are common aspects of traditional Japanese corporate management. They are perceived as integral for the company's long-term survival. In spite of this, disclosure of non-financial information and shareholder accountability remains insufficient.

³ According to the estimation by the Japan Sustainable Investment Forum (JSIF), SRI market value peaked at approximately 850 billion Japanese Yen (JPY) at the end of 2007, but fell to 579 billion JPY as a result of a shrinking global market. In 2007, European SRI amounted to 2.7 trillion Euro; U.S. SRI amounted to \$2.7 trillion. (Japan Social Investment Forum, 2009).

⁴ Major investors concerned with CSR tend to be individuals rather than institutions. Based on a 2009 estimation, 90% of SRI is comprised of investment trust funds for individuals; only 10% is due to long-term institutional investment (Japan Social Investment Forum, 2009). Based on a 2008 survey related to pension plans, only 6.9% of pension plans had already adopted SRI. (Research Institute for Policies on Pension and Aging, 2008).

⁵ Insufficient information represents a barrier against adopting SRI by corporate pension funds. According to the results of a study performed by the Research Institute for Policies on Pension and Aging (2008), 24.7% of fund managers who planned to adopt SRI in future claimed that sufficient information was a key determinant of their decision to do so.

⁶ The most well-known policy of long-established Japanese businesses is the coordination of interests among three types of stakeholders: suppliers, buyers, and community or society. By coordinating the interests of these stakeholders, it is possible to establish trust based on societal relationships and transactions guided by self-discipline. According to a 2013 report by Teikoku Databank Ltd., there are 26,144 companies that are over a hundred years old and 141 companies more than 400 years old.

3. Hypothesis Development

The central purpose of this study is to explore the effects of foreign investment on CSP and CSR-related activities among Japanese firms in the late 2000s when the types of foreign investors underwent significant diversification. We carefully distinguish preference of foreign investment (relative to domestic investment) for high CSP firms from influences of their behaviour on CSP of their investees.

In general, institutional investors tend to prefer to invest in large, mature companies with good reputations to reduce the degree of information asymmetry in the capital market. Foreign corporate investors, who possess less information than their domestic counterparts, may show a greater preference for CSP corporations willing to consider the non-financial elements of investees' businesses to avoid risk or to reduce agency costs. In contrast, domestic corporate investors may consider CSR practices to be intrinsically tied to higher costs or have little bearing on financial performance. Further, in the Japanese market, long-term domestic institutional investors (e.g. pension funds) seem to have been unconcerned with CSP and were subject to a short-term bias in the 2000s (Suto and Toshino, 2005). Therefore, foreign investors that engage in value-enhancing or value-seeking strategies may demonstrate a stronger preference for firms that perform well in terms of their social responsibilities than domestic counterparts.

In light of the above discussion, we propose the following hypotheses to explore the relationship between different types of ownership and the preference to invest in Japanese firms with good CSP in the late 2000s:

Hypothesis 1: There is a positive relationship between foreign ownership and Composite CSP achievement if foreign investors prefer high CSP firms under conditions of information asymmetry.

Hypothesis 2: The positive relationship between foreign ownership and Composite CSP is more pronounced than the relationship between domestic corporate ownership and Composite CSP, if foreign investors face more serious information asymmetry.

Strategic stakeholder management is the key to relating CSP to corporate value. Each type of investor group (all of which are respectively characterised by different investment strategies) may pursue different types of relationships with their respective stakeholders. In enhancing financial performance, it is important for corporate managers to understand what dimensions of CSR a type of investors prefer. As per the discussion in Section 2, in a Japanese insider-system of corporate management, domestic corporate investors may be more interested in employment relations than foreign. As such, the internal governance index may serve as a key indicator for foreigners but is less important for domestic investors since all listed corporations were required to release an internal control report beginning in 2008. Relative to other types of investor groups, individual investors may show a higher preference environment issues and social contributions. Given this, we propose the following hypothesis:

Hypothesis 3: *The relationships between the dimensions of CSP and types of ownership differ if investors have different investment strategies.*

As discussed in Section 2.2, various types of foreign investors have purchased stock in Japanese companies. Some of these foreign investors may use CSP and short-term value-seeking strategies to mitigate uncertainty caused by insufficient corporate governance in the Japanese market. Other foreign investors may seek to enhance investment value over the long term by actively targeting firms that perform high CSP. In either case, it seems clear that increases in foreign ownership may directly or indirectly pressure investees to improve their CSP and disclose information related to it. In contrast, increasing domestic corporate ownership may reduce firms' concern with CSP. Among domestic investors, individuals who invest in SRI funds have begun to emerge in the Japanese market, but their influence on corporate management may be limited.

To identify the respective influences of foreign investors on CSP both dimensionally and comprehensively (relative to domestic investor groups) in the Japanese stock market, we offer the following hypotheses. These hypotheses represent the central focus of this study:

Hypothesis 4: *Increases in foreign ownership enhance CSP if foreign investors are concerned with increasing their investees' CSP.*

Hypothesis 5: *Increases in domestic ownership less enhance CSP than foreign ownership if domestic investors are less concerned with increasing their investees' CSPs than foreign investors.*

4. CSR and Stock Ownership Structure: Preliminary Analysis

4.1. CSR Attributes and Construction of CSP Indices

Because the management of stakeholders' competing interests can contribute to successful economic performance, CSP can be effectively analysed by adopting a stakeholder management perspective (Barnea and Rubin, 2010; Berman et al. 1999; Clarkson, 1995; Harrison and Freeman, 1999; Scholtens and Zhou 2008). In this study, we first define CSP dimensions from a stakeholder management perspective and define Composite CSP to integrate these dimensions. A stakeholder-focused approach to corporate governance emphasises that CSR activities can be linked to different stakeholder relations. In this study, we identify five CSP dimensions: employee relations, social contributions, organisation security and product safety, internal governance and risk management, and environmental preservations.

First, employee relations relate to working conditions within the organisation. Effective employee relations can improve the quality of work produced by employees and employee motivation. In this context, effective employee relations include

appropriate working hours and salary, employment of minorities, job stability, safe working conditions, and enlightenment of human resources. Attention to these factors can yield financial benefits or reduce business risks (Edmans, 2011; Faleye and Trahan, 2011; Greening and Turban, 2000; Turban and Greening, 1997).

Second, social contributions relate to a firm's policy for, and response to, social demands. Positive relationships and coordination with the surrounding community in which the firm operates can reduce costs and risk associated with local conflicts, attract talented human resources, and generally enhance the firm's reputation. In contrast, conflicts with the surrounding community can narrow business prospects and increase costs and risks associated with business operation in that area.

Third, firm security and product safety is related to customer confidence in the quality of a firm's products and trust in the transactions in which it engages. This attribute is often linked to reputational risk and business sustainability (Barnea and Rubin, 2010). Therefore, it exists not only as a competitive advantage of corporate management in the long-term, but also as a form of risk management (Ittner et al., 2009; Smith, 2008; Tuli and Bharadwaj, 2009). Security and safety is further related to supply chain management and the firm's own activities, and ultimately affects a firm's relationship with its customers.

Fourth, internal governance and risk management concerns the firm's disclosure policy, organisational information sharing, compliance and internal auditing, and self-disciplining, as well as its institutional and legal framework (Aguilera et al., 2006; Cox and Schneider, 2010). Internal governance and risk management represents the foundation of quality management which relates to long-run competitiveness through the minimisation of a priori risk and the reduction of conflicts of interest between managers and stakeholders (Harjoto and Jo, 2011). Firms must choose the appropriate internal governance architecture, and adopt strategies in the existing regulatory framework to best maintain these relations.

Finally, environmental preservation represents a pillar of CSR in a society that has grown increasingly concerned with global climate change. As such, one may perceive that environmental preservation is the most integral responsibility of firms (Jiao, 2010; Manescu, 2011; Russo and Fouts, 1997; Scholtens and Zhou, 2008).

We constructed the CSP indices related to these five dimensions using the Toyo Keizai Corporate Social Responsibility Database as a primary data source. Because the CSR data are based on survey responses from 2007 to 2011⁷, we used this time frame as the temporal basis of our study. The original database consists of three parts: employee relations (Part I), an overall survey related CSR (Part II), and environmental preservation (Part III). We subdivided Part II into three distinct CSR dimensions, which correspond to the stakeholder relations we chose.

First, we selected 17 questions related to employee relations, 21 questions concerning CSR in a general sense, and 18 questions regarding environmental

⁷ The earliest data from the CSR database were from 2006 but the form of the questionnaire was significantly revised in 2007. Toyo Keizai Inc. sent the questionnaire to the firms in the beginning of July and retrieved responses by the end of September.

preservation⁸. For each of the five CSP attributes, we used a principal component analysis to construct CSP dimensional indices. Then, on the basis of responses to the questions we selected⁹, we kept 13 scores regarding employee relations (EMP), five scores regarding social contributions (SC), five scores regarding security of the firm and product safeness (SS), six scores regarding internal governance and risk management (IG), and five scores regarding environmental preservation (ENV)¹⁰. The item scores and their related factor loading are shown in Table A1. We then demeaned and scaled each CSP dimensional index by its standard deviation so that it approximately obeyed a standard normal distribution.

We computed the composite CSP index on the basis of the five dimensional indices described above. Let $r(\cdot)$ denote the function that gives a rank of the element of the vector in ascending order and n denote the number of firms in each year. Given this, the comprehensive measure of CSP in each year is defined as follows:

$$CSP = \frac{r(r(EMP) + r(SC) + r(SS) + r(IG) + r(ENV)) - 1}{n - 1} \times 6 - 3 \quad (1)$$

It is convenient for researchers if the scale of the composite CSP measure is comparable to those of the CSP dimensional indices. Because our CSP dimensional indices approximately obey a standard normal distribution, we adjusted equation (1) such that the composite measure of CSP is uniformly distributed and falls in the closed interval $[-3, 3]$.

4.2. Categorisation of Ownership

Before examining the hypotheses described in the previous section, it is necessary to discuss how we categorised ownership for the purposes of this study. As shown in Table 1, we categorised investors in the Japanese market into three groups of owners on the basis of data from the Tokyo Stock Exchange (TSE): domestic corporate investors, foreign corporate investors, and individual investors.

Japanese corporations are required to disclose a summary of their stock ownership structure in their financial reports. This summary describes the number of shares owned by domestic corporations, foreign corporations, and domestic individuals. For the purposes of this study, shareholding by domestic corporations is defined as the sum of

⁸ With respect to environmental preservation, we excluded items that required quantifiable values (e.g. costs and emissions) because there can exist significant differences in these figures among industries. In addition, there were a significant amount missing data for these questions.

⁹ We excluded responses to overlapped sub-questions, qualitative responses, and many blank responses.

¹⁰ For each year, we first converted quantitative data (e.g. proportion of female employees) to three- or four-level categorical data. Then, we made within-sector adjustments because some questions had different meanings among sectors. The seven sectors used in this study are identical to those defined in Kubota and Takehara (2007) that set store on the distance between firms and final consumers.

shares owned by financial institutions and shares owned by other corporations. In computing the respective proportion of shares owned by domestic corporations, we excluded shares owned by securities brokers, governments, and public organisations.

This categorisation scheme is restricted by the amount of information that firms publish, but it is sufficient for analysing foreign ownership preferences for and influences on CSP relative to domestic ownership. Thus, this study represents a viable first step in investigating the link between ownership structure and CSR activities in Japanese firms.

4.3. Firm Characteristics

For this study, we used the most recent financial statement data and market-attributed data available at the end of September of each year. The primary source for financial statement data was the NIKKEI NEEDS Database. The primary source for market attributed data, including market value of equity and stock return, was the Financial Data Solutions NPM Database.

To investigate stakeholders' CSP-related behaviour, it was necessary to first evaluate the firms' basic characteristics in addition to its stock ownership structure. To control for firm characteristics that may inadvertently affect the relationship between stock ownerships and CSP, we employed eight control variables. First, as has been indicated by a significant amount of past research, a firm's CSP is positively correlated to its size. As such, we used the natural logarithm of a firm's total asset value (in million JPY), $\ln TA$, as a measure of firm size. Because the relationship between CSP and firm size is not linear, we also constructed three size dummy variables—Size1, Size2, and Size3—to incorporate into the regression analysis. We also included proxies for profitability, credit risk, and growth of the firm as control variables. These variables were Return on Assets (ROA), Debt Ratio (DR = total debt/total asset), and Growth Rate of Total Assets (GTA). In addition, to account for a firm's liquidity and variability of stock price (to which institutional investors attach importance), we also included variables related to monthly turnover rate (Turn) and 36-month historical volatility (Vol3Y), respectively. We also included the Book-to-Price Ratio (BPR) in the model to control for differences in portfolio style (i.e. value vs. growth). As is shown in Fama and French (1992) and Jagannathan, Kubota and Takehara (1998), BPR is closely related to average stock returns in U.S. and in Japan; lower BPR suggests that investors expect managers to create value through operation of the firm. Finally, we incorporated the Foreign Dependency Ratio (FDR) variable, which was defined as sales in foreign countries divided by total sales. As will be discussed in the subsequent sections, all of these control variables are closely related to the CSP of Japanese firms.

4.4. Sample Selection and Preliminary Analysis

Our selection of sample firms was contingent upon the availability of relevant data including data regarding CSP, ownership, and finances. The availability of these data was paramount for determining the firm characteristics described above for the period between 2007 and 2011. All firms included in our sample were listed during this period.

Table 2 lists the number of firms in each sector by year. The number of firms ranged from 753 in 2007 to 868 in 2011. About 60% of the firms are listed on the TSE first section; however, roughly 10% of the sample firms are listed on the second section of the TSE and 30% of sample firms are listed on exchanges other than the TSE. Firms in the services industry represented 37% of the sample, but only half of these firms were listed on the TSE.

[Table 2 about here]

For September of each year, we constructed sector portfolios or size-ranked, equal-weighted portfolios. Table 3 reports the descriptive statistics of the sample firms' CSP by sector (Panel A) and by firm size (Panel B). The median and mean scores for the composite measure of CSP are highest in the consumption goods sector. Medians for EMP, SS, and IG are highest in the investment goods sector. In contrast, median values of SC and ENV are highest in the utility sector. This demonstrates that the values of the different CSP attributes vary widely by industry. Panel B illustrates the positive relationship between firm size (as measured by total assets) and firm CSP.

Table 4 summarises descriptive statistics related to the stock ownership structure of sample firms. There is little difference in shares owned by domestic corporations across sectors or firm sizes. In sharp contrast, there exists a large difference in shares owned by foreign corporations. Foreign corporations tend to own large- and medium-sized stocks and do not invest a great deal in firms in service sectors whose CSPs are relatively low.

[Table 3 about here]

[Table 4 about here]

Panel A of Table 5 shows the correlations between CSP and ownership structure; Panel B shows the correlations between CSP and the eight firm characteristic variables outlined above. As indicators of ownership structure, we employed both current levels and five-year-change in the share ownership. In both Panels A and B, we report the Spearman rank correlations and their corresponding probability values.

In Panel A, the correlations between the composite CSP and shares owned by both foreign and domestic corporate investors are significantly positive ($p < .01$). This finding supports Hypothesis 1. Because the correlation between foreign ownership and composite CSP is higher than the analogous correlation for domestic ownership, the findings reported in Panel A also support Hypothesis 2. In addition, there exists significant variation in the magnitudes of the correlations between the CSP dimensional indices and stock ownership. This result provides empirical support for Hypothesis 3. The correlation between the composite CSP and five-year increase in foreign ownership is significant and positive, but the analogous correlation related to domestic corporate ownership is significant and negative. These findings support Hypotheses 4 and 5. Individual ownership is positively related to neither the composite CSP nor the CSP

dimensions. Taken together, these findings provide support for (or, at least do not refute) Hypotheses 1 to 5.

Panel B confirms the relationships between firm characteristics and the CSP indices. The correlations between composite CSP and all the characteristics variables (with the exception of DR) are statistically significant ($p < .01$). This demonstrates that high CSP firms are typically large-scale and globalised, with high liquidity and performance, but have low dependency on debt.

[Table 5 about here]

5. Regression Analysis

5.1. Relationship between Stock Ownership and CSP

The high correlations between the CSP indices and the characteristics variables raise suspicions regarding the findings reported in Panel A of Table 5. To check the robustness of our findings on the relationship between stock ownership and CSP, we conducted a multivariate regression analysis in which we employed the control variables discussed in Section 4.3. This regression model was specified as:

$$\begin{aligned}
 y_{j,t} = & \alpha + \beta x_{j,t} \\
 & + \gamma_1 ROA_{j,t} + \gamma_2 DR_{j,t} + \gamma_3 GTA_{j,t} + \gamma_4 Turn_{j,t} + \gamma_5 Vol3Y + \gamma_6 BPR_{j,t} + \gamma_7 FDR_{j,t} \quad (2) \\
 & + \sum_{i=2}^3 \delta_i DSize_{i,j,t} + \sum_{i=2}^6 \lambda_i DSector_{i,j} + \sum_{t=2007}^{2010} \eta_t DYear_{j,t} + \varepsilon_{j,t}.
 \end{aligned}$$

In model (2), dependent variable $y_{j,t}$ is a composite CSP or one of the five CSP dimensional indices of firm j in year t . Independent variable $x_{j,t}$ is one of (a) shares owned by foreign corporations, (b) shares owned by Japanese corporations, (c) shares owned by individuals, (d) increase in shares owned by foreign corporations, (e) increase in shares owned by Japanese corporations, and (f) increase in shares owned by individuals of firm j in year t . ROA, DR, GTA, Turn, Vol3Y, BPR, and FDR are control variables. $DSize_{i,j,t}$ is a size dummy which is equal to 1 if firm j belongs to the i -th size ranked portfolio in year t , and 0 otherwise. $DSector_{i,j}$ is a sector dummy variable which is equal to 1 if firm j belongs to the i -th sector, and 0 otherwise. Finally, $DYear_{j,t}$ represents a dummy variable to indicate each year we evaluated, where $t = 2007, \dots, 2010$.

To mitigate endogeneity resulting from potential possible reverse causality between CSP and ownership variables, we performed two-stage least square regression analysis in which we used a one-year lagged ownership variable and a dummy (NOTSE1) as instrument variables¹¹. NOTSE1 adopts the value of 1 if the firm is not listed in the TSE

¹¹ We first ran an OLS analysis and considered observations whose standardised residuals were larger than 3.0 or smaller than -3.0 to be outliers. In the subsequent two-stage LS analysis, we

First Section, and 0 if the firm is listed in the First Section.¹²

Table 6 reports the results of the regression analyses for different investor groups with both Composite CSP and five CSP dimensional indices serving as the dependent variables. When Composite CSP is the dependent variable, both domestic and foreign corporate ownership is positively related to CSP; however, individual ownership is negatively related to CSP. These results support Hypothesis 1. Moreover, the coefficient associated with the CSP of foreign ownership is much larger than that of domestic corporate ownership. Therefore, Hypothesis 2 is also supported. For the analyses in which the CSP dimensions are used as dependent variables, results show a significant positive relationship with corporate ownership. These analyses also show that the coefficients for foreign ownership are higher than those for domestic ownership. In contrast, individual ownership has a significantly negative association with all dimensions of CSP. These results fail to refute Hypothesis 3.

[Table 6 about here]

Table 7 summarises the observations related to the association between changes in ownership structure over the past five years and current level of CSP. First, we examined the relationship between shares held by foreign investors and firm CSP. The results are shown in Panel A of Table 7; none of the regression slopes are significant at the 5% level. After controlling for a firm's financial characteristics, there is no evidence to suggest that an increase in foreign ownership is related to current CSP. Panel B summarises the results of a regression that evaluates the relationship between Japanese corporate ownership and CSP. In contrast to the results related to foreign ownership, the slope coefficients for most variables are negative and are in fact statistically significant for CSP and ENV ($p < .05$). These results suggest that the increase in shares held by Japanese corporations is negatively associated with a firm's current level of CSP. From this, foreign and domestic investors differ in terms of their investing preferences. These findings support Hypothesis 2, albeit weakly.

Panel C shows that increases in individual ownership is positively related to current CSP. As shown in Panel C of Table 4, shares held by individual investors are high among firms with small portfolios (Size3). Moreover, the increase in shares held by individuals is only positively related to CSP for firms with small stock portfolios. These results indicate that individual investors prefer small size stocks with superior CSP. In

excluded these observations. When we computed the t -values for regression slopes, standard errors were corrected by the two-way cluster error correction method described by Petersen (2009).

¹² We conducted the Wu-Hausman's test for endogeneity and Sargan's over-identification test before the two-stage least-square analysis. The results of these tests are available upon request from the authors. Since Wu-Hausman's test statistics are not significant at 5% level in most cases, endogeneity is not severe in regression models (2) and (3), though we use a two-stage regression method.

this way, the portfolio preferences of individual investors differ from the preferences of foreign and domestic corporate investors.

[Table 7 about here]

5.2. Investigating the Relationship between Changes in Ownership and Changes in CSP

In Section 5.1, we examined the association between five-year changes in stock ownership and current CSP. However, one fundamental purpose of this paper is to examine whether increases in foreign ownership enhances firms' CSP (see Hypothesis 4). To answer this research question, we examined the relationship between changes in ownership and changes in CSP scores.

It is important to consider that improvements in CSP may take several years, despite managers' immediate reactions to changes in ownership structure. Because our CSP dimensional indices only cover five years (2007-2011), it is difficult to explore the causal relationship between long-run changes in firm ownership structure and tangible changes to CSR-related activities. Considering the constraints on the analysis derived from the short-term nature of our model, we employ another regression model (see Equation (3)) whose basic structure is illustrated in Figure 1.

$$\begin{aligned} \Delta CSP_{j,2008:2011} = & \alpha + \beta \Delta OWN_{j,(t-3):t} \\ & + \gamma_1 ROA_{j,t} + \gamma_2 DR_{j,t} + \gamma_3 GTA_{j,t} + \gamma_4 Turn_{j,t} + \gamma_5 Vol3Y + \gamma_6 BPR_{j,t} \\ & + \gamma_7 FDR_{j,t} + \sum_{i=2}^3 \delta_i DSize_{i,j,t} + \sum_{i=2}^6 \lambda_i DSector_{i,j} + \sum_{t=2007}^{2010} \eta_t DYear_{j,t} + \varepsilon_{j,t}. \end{aligned} \quad (3)$$

First, the dependent variable ΔCSP , is fixed as a three-year change in composite CSP (or one of the five CSP attributes) from October 2008 to September 2011. The key explanatory variable, ΔOWN , is a three-year change in stock ownership computed for four distinct time periods. As illustrated in Figure 1, if we use the ΔOWN from Period (1), which ranges from October 2005 to September 2008, there is no overlap with ΔCSP . For Period (1), we explored how a changing ownership structure over the past three years affects future CSP. For Periods (2) and (3), the respective observation periods of ΔOWN and ΔCSP partially overlap. Therefore, we explicitly assumed that changes in ownership trigger changes in CSP, though part of this effect is exerted immediately. In Period (4), the observation period for ΔOWN coincides with the observation period for ΔCSP . Therefore, in this case, we examined the immediate effect of change in ownership on the implementation of CSR-related activities. For these analyses, we incorporated control, instrument, and dummy variables that were identical to those used for model (2).

[Figure 1 about here]

Table 8 reports the results of this analysis. First, Panel A summarises the results of analyses that evaluate the effect of changes in foreign ownership structure on future changes in CSP. In nearly every case, the estimated slope coefficients were shown to be positive. Moreover, the coefficients for CSP and EMP were strongly significant in Periods (1) and (3). The probability values are larger in Period (4), rendering the coefficients non-significant. This coincides with our expectations, however, as we interpret this tendency to indicate that managers require a longer time to improve CSP as it relates to employee relations. Given these findings, the regression results in Panel A support Hypothesis 4. From this, we infer that growing foreign ownership improves the CSP of Japanese firms, and that foreign investors are particularly concerned with the employment relations element of the CSR practices for the firms in which they invest.

Using the same regression model (3), we also examined how changes in shares held by domestic corporate investors affect the CSP of Japanese firms. Results of this analysis are summarised in Panel B. Increases in domestic corporate ownership yielded negative, non-significant coefficients for the CSP variables in Periods (1) through (3). Among the individual CSR attributes, slopes for EMP are negative and significant in Periods (1) and (2). The signs and coefficients for the other attributes are mixed and largely non-significant. Taken together, Hypothesis 5 is supported.

Panel C summarises the results of a regression analysis related to change in individual investors. This analysis showed nearly all coefficients related to CSP to be negative, but not significant. The only exception is the ENV component of CSP; the relationship between change in individual investor ownership and ENV is positive in Period (1), but is not statistically significant. Although roughly 20% of shares are owned by individual investors, some of which actively invest in funds that are environmentally friendly, this group does not significantly affect corporate management. Their distance from corporate management seems substantial relative to corporate investors.

[Table 8 about here]

6. Concluding Remarks

In this study, we investigated the influence of different types of investors on Japanese firms' CSP, highlighting the role of foreign investors in the globalisation of ownership. Our results suggest that whereas foreign investors not only prefer high CSP firms, but also enhance CSP among Japanese firms, domestic corporate investors seem less concerned with CSP than their foreign counterparts. These findings are largely consistent with those produced by previous studies which suggest that large investors generally tend to prefer large-scale, mature firms with good governance and/or social reputation to gain long-term benefits (Turban and Greening, 1997) or to avoid risk in corporate managers' decision-making (e.g. Changanti and Damanpur, 1991). However, this preference is generally more pronounced for foreign investors than domestic investors due to different degrees of information asymmetry. This result is not only consistent with past studies on Japanese firms in this domain (see Ahmadjian, 2007;

Miyajima and Nitta, 2011; Suto and Toshino, 2005), but also with many other studies that have demonstrated a positive association between institutional ownership and CSP (Coffey and Fryxell, 1991; Graves and Waddock, 1994; Johnson and Greening, 1999; Mahoney and Roberts, 2007).

Of the findings revealed in this study, the most remarkable concerns the evidence produced in relation to the effects of increases in foreign ownership on CSP in Japanese firms. One interpretation of this result is that active behaviour among foreign investors can motivate managers of Japanese firms to review their CSR practices and improve the degree to which they engage in non-financial disclosure in Japanese markets. However, the results of this study do not necessarily indicate that foreign investors typically pursue value-enhancing strategies with long-term perspectives. Some foreign investors may be interested in social and environmental aspects of the firm to avoid risk in seeking value. Even if investment strategies among foreign investors are diverse, emerging concern with CSP by foreign investors can stimulate non-financial disclosures in the Japanese market.

The analyses described in this study generated some interesting findings related to the dimensional CSP. First, individual investors do not seem to be concerned with the social contribution attribute of CSR. This result suggests that there exists a difference in perceptions of social contribution between companies and investors in terms of CSR in the Japanese market. Some firms may overinvest in philanthropy and social issues without considering the relationship between social benefits and corporate value. This result is consistent with prior research that has revealed a negative relationship between social giving of firms and CSP (e.g. Coffey and Fryxell, 1991; Griffin and Mahon, 1997; Mahoney and Roberts, 2007)

Second, we found that foreign shareholding is more strongly associated with a firm's employee relations than domestic shareholding. This result indicates that foreign investors may be more interested than domestic investors in firms with employment policies that emphasise diversity, work-life balance, and handicapped and aging workers, which have become increasingly important for corporate management in response to the social changes. This finding shows that foreign investors pay particular attention to the internal stakeholder management practices of the firms in which they invest, which is largely consistent with the results of previous studies that showed a positive association between employee relations and firm profitability (e.g. Edmans, 2011; Faleye and Trahan, 2011; Turban and Greening, 1997). Despite its importance, however, overinvestment in human resources can decrease a firm's intrinsic value as Scholtens and Zhou (2008) indicated. One possible interpretation of this particular result is that foreign investors consider human resource management a key dimension of CSR, which is linked to the competitive advantages of Japanese firms. Despite its importance, however, overinvestment in human resources can decrease a firm's intrinsic value.

The case of Japanese firms suggests that foreign investors (who are more actively concerned with various aspects of corporate valuation) can influence the shift from insider-oriented corporate governance toward a more transparent structure among Japanese firms. To do so, foreign investors pressure corporate managers to reconsider its

management of stakeholders and the ways in which it relates to firm shareholders.

The results produced by this study have practical implications for both corporate managers and domestic corporate investors in Japan. Specifically, Japanese firms should be more sensitive to the social and environmental elements of perception of the markets in which they operate. Moreover, firms should improve their disclosure practices in a global business environment. Domestic corporate investors, particularly long-term institutional investors, should have a greater concern with stakeholder management and reconsider how they perceive the non-financial aspects of investees' activities in their long-term valuation of corporations.

Despite these findings and implications, this study suffers from some shortcomings associated with the ownership data we used. Our categorisation of investors (i.e. foreign corporate investors, domestic corporate investors, and individuals) fails to distinguish business corporate ownership from institutional ownership or long-term investors from short-term investors. This is notable, given that the aims of these different types of ownership may differ. For example, among corporate investors, the aims of stockholding may be different for business firms and financial institutions.

The further delineation of these ownership structure types will avoid problems associated with heterogeneity. This represents a necessary step for validating the evidence produced by our analyses. As such, we should next explore the confounded nature of ownership structure within Japanese firms with more precise data. By extending this line of inquiry, future researchers can provide a more nuanced understanding of the impact of corporate governance on social responsibility in an increasingly global society.

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Table 1. Ownership Structure of Listed Companies at Market Value

Year	Number of Companies	Commercial Bank	Trust Bank	Insurance Companies	Business Corporations	Domestic Corporations	Foreign Institutions	Individuals
		a	b	c	d	a+b+c+d		
1985	1,833	20.9	2.5	16.4	28.8	68.6	7.0	22.3
1990	2,078	15.7	9.8	15.9	30.1	71.5	4.7	20.4
2000	2,587	10.1	17.4	10.9	21.8	60.2	18.8	19.4
2001	2,656	8.7	19.9	10.2	21.8	60.6	18.3	19.7
2002	2,661	7.7	21.4	9.3	21.5	59.9	17.7	20.6
2003	2,679	5.9	19.6	8.1	21.8	55.4	21.8	20.5
2004	2,775	5.3	18.8	7.6	21.9	53.6	23.7	20.3
2005	2,843	4.7	18.4	7.4	21.1	51.6	26.7	19.1
2006	2,937	4.6	17.9	7.6	20.7	50.8	28.0	18.1
2007	3,897	4.7	17.3	7.6	21.4	51.0	27.4	18.7
2008	3,803	4.8	18.8	7.4	22.6	53.6	23.5	20.5
2009	3,694	4.3	18.4	7.0	21.3	51.0	26.0	20.1
2010	3,616	4.1	18.2	6.4	21.2	49.9	26.7	20.3
2011	3,554	3.9	18.6	6.1	21.6	50.2	26.3	20.4
2012	3,540	3.8	17.7	5.7	21.7	48.9	28.0	20.2

Note: Percentage of shares at market value held by each type of investor. Listed companies in JASDAQ Stock Exchange are included since 2004. Security brokers are excluded.

Source: Tokyo Stock Exchange Stock Ownership Survey.

Table 2. Number of Sample Firms

Sector	2007	2008	2009	2010	2011	TSE1	TSE2	Others	Total
Consumption Goods	202	192	197	213	215	206	29	47	282
Investment Goods	286	297	309	312	310	298	41	72	409
Services	209	225	254	273	279	207	40	148	388
Transportation	19	20	20	21	25	22	3	4	29
Utility	11	12	13	15	11	15	0	0	15
Real Estate	26	29	23	27	28	28	6	12	45
All Sectors	753	775	816	861	868	776	119	283	1168

Note: Number of sample firms at the end of September of each year (2007-2011) and the number of firms listed on the Tokyo Stock Exchange 1st Section (TSE1), the Tokyo Stock Exchange Second Section (TSE2), and other stock exchanges in Japan (Others).

Table 3. Descriptive Statistics of Corporate Social Performance of Japanese Firms**Panel A. Sector-wise Corporate Social Performance**

	Employee Relations			Social Contribution		
	Median	Mean	S.D.	Median	Mean	S.D.
Consumption Goods	0.305	0.134	1.216	0.207	0.169	1.005
Investment Goods	0.362	0.260	1.240	0.011	0.069	0.962
Services	0.215	-0.024	1.216	-0.125	-0.031	0.970
Transportation	0.190	0.123	1.136	0.097	0.143	1.059
Utility	-0.066	0.023	0.938	0.769	0.387	0.843
Real Estate	0.002	-0.154	1.147	-0.406	-0.137	0.955
All Firms	0.285	0.121	1.223	0.014	0.064	0.980
	Security and Safety			Internal Gov. and Risk Mng.		
	Median	Mean	S.D.	Median	Mean	S.D.
Consumption Goods	0.682	0.414	0.795	0.054	0.068	0.959
Investment Goods	0.455	0.244	0.877	-0.019	-0.024	0.977
Services	-0.167	-0.283	1.045	0.024	0.044	0.971
Transportation	0.490	0.000	1.039	-0.105	-0.368	1.378
Utility	0.535	0.201	0.686	-0.115	0.033	0.697
Real Estate	-0.261	-0.417	1.034	0.006	-0.006	0.932
All Firms	0.353	0.097	0.965	0.007	0.012	0.980
	Environment Preservations			Composite CSP		
	Median	Mean	S.D.	Median	Mean	S.D.
Consumption Goods	0.301	0.192	0.925	0.805	0.499	1.748
Investment Goods	0.246	0.194	0.897	0.488	0.357	1.664
Services	-0.139	-0.062	0.919	-0.145	-0.152	1.651
Transportation	0.167	0.156	0.826	0.155	0.100	1.678
Utility	0.353	0.630	0.917	0.540	0.500	1.417
Real Estate	-0.491	-0.226	0.851	-0.367	-0.412	1.556
All Firms	0.152	0.108	0.919	0.292	0.208	1.699

Panel B. Firm Size and Corporate Social Performance

	Employee Relations			Social Contribution		
	Median	Mean	S.D.	Median	Mean	S.D.
Size1(Large)	0.889	0.756	1.085	0.934	0.802	0.902
Size2	0.288	0.058	1.157	-0.028	-0.039	0.808
Size3 (Small)	-0.287	-0.449	1.115	-0.666	-0.571	0.673
All Firms	0.285	0.121	1.223	0.014	0.064	0.980
	Security and Safety			Internal Gov. and Risk Mng.		
	Median	Mean	S.D.	Median	Mean	S.D.
Size1(Large)	0.722	0.399	0.915	0.238	0.286	0.949
Size2	0.358	0.157	0.897	-0.022	0.020	0.918
Size3 (Small)	-0.197	-0.263	0.964	-0.246	-0.270	0.993
All Firms	0.353	0.097	0.965	0.007	0.012	0.980
	Environment Preservations			Composite CSP		
	Median	Mean	S.D.	Median	Mean	S.D.
Size1(Large)	0.804	0.800	0.698	1.806	1.510	1.248
Size2	0.089	0.107	0.775	0.283	0.222	1.413
Size3 (Small)	-0.771	-0.584	0.700	-1.302	-1.106	1.296
All Firms	0.152	0.108	0.919	0.292	0.208	1.699

Table 4. Descriptive Statistics of Stock Ownership Structure of Japanese Firms**Panel A. Sector-wise Summary of Stock Ownership Structure**

	Percentage of Shares Held by Foreign Corporations			Past 5 Year Increase in Shares Held by Foreign Corporations		
	Median	Mean	S.D.	Median	Mean	S.D.
Consumption Goods	11.213	14.418	12.813	0.685	1.788	8.476
Investment Goods	10.638	13.474	12.343	1.703	3.250	8.015
Services	4.444	8.881	11.285	0.149	1.166	7.779
Transportation	7.948	13.002	12.149	1.494	3.427	6.522
Utility	12.022	13.471	7.273	4.759	4.845	5.233
Real Estate	13.032	15.425	14.244	2.993	4.419	12.300
All Firms	8.549	12.364	12.373	0.853	2.317	8.229
	Percentage of Shares Held by Japanese Corporations			Past 5 Year Increase in Shares Held by Japanese Corporations		
	Median	Mean	S.D.	Median	Mean	S.D.
Consumption Goods	49.659	49.012	16.522	-2.565	-2.702	9.633
Investment Goods	53.113	52.441	14.865	-2.434	-2.987	8.401
Services	46.343	46.294	18.769	-1.685	-1.319	10.658
Transportation	52.853	54.880	13.799	-1.807	-3.067	7.919
Utility	47.157	48.672	10.099	-1.771	-2.827	6.341
Real Estate	55.756	49.792	21.024	-1.418	-0.554	13.538
All Firms	50.472	49.631	16.894	-2.151	-2.328	9.631
	Percentage of Shares Held by Individual Investors			Past 5 Year Increase in Shares Held by Individual Investors		
	Median	Mean	S.D.	Median	Mean	S.D.
Consumption Goods	29.364	35.019	18.799	0.883	0.669	10.143
Investment Goods	28.273	32.909	18.066	-0.288	-0.395	9.173
Services	41.931	43.721	21.203	0.708	0.125	11.175
Transportation	24.797	31.123	17.476	-0.102	-0.542	6.297
Utility	36.285	34.461	10.340	-2.545	-2.172	4.096
Real Estate	32.041	33.312	22.300	-2.143	-4.219	14.654
All Firms	33.522	36.719	19.856	0.149	-0.126	10.199

Panel B. Firm Size and Stock Ownership Structure

	Percentage of Shares Held by Foreign Corporations			Past 5 Year Increase in Shares Held by Foreign Corporations		
	Median	Mean	S.D.	Median	Mean	S.D.
Size1(Large)	21.210	22.600	11.980	3.801	4.523	9.153
Size2	8.244	10.659	9.212	1.830	2.787	7.613
Size3 (Small)	1.082	3.844	7.124	0.000	-0.355	7.020
All Firms	8.549	12.364	12.373	0.853	2.317	8.229
	Percentage of Shares Held by Japanese Corporations			Past 5 Year Increase in Shares Held by Japanese Corporations		
	Median	Mean	S.D.	Median	Mean	S.D.
Size1(Large)	52.595	52.585	12.868	-3.504	-4.334	8.311
Size2	54.446	53.764	15.021	-1.981	-2.089	9.091
Size3 (Small)	41.044	42.555	19.730	-1.048	-0.564	10.929
All Firms	50.472	49.631	16.894	-2.151	-2.328	9.631
	Percentage of Shares Held by Individual Investors			Past 5 Year Increase in Shares Held by Individual Investors		
	Median	Mean	S.D.	Median	Mean	S.D.
Size1(Large)	20.871	22.814	11.623	-0.289	-0.602	8.077
Size2	33.866	34.593	15.150	-0.460	-0.685	10.256
Size3 (Small)	54.263	52.726	19.078	1.112	0.907	11.838
All Firms	33.522	36.719	19.856	0.149	-0.126	10.199

Note: In each year $t=2007, \dots, 2010$, all sample firms are first ranked by their total asset value and three size-ranked portfolios are constructed. Firms in these three size portfolios are further divided into three groups based on their past five year increases in shares held by foreign corporations.

Table 5. Correlation among CSP, Ownership Structure, and Firms' Characteristics

Panel A. Spearman Rank Correlation between CSP and Stock Ownership Structure

	Foreign Investors	Japanese Corporations	Individual Investors	Past 5 Years Increase in Shares Held by Foreign Investors	Past 5 Years Increase in Shares Held by Japanese Corporations	Past 5 Years Increase in Shares Held by Individual Investors
Composite CSP	0.535	0.195	-0.485	0.168	-0.120	-0.032
<i>p</i> -value	0.000	0.000	0.000	0.000	0.000	0.040
Employee Relations	0.357	0.126	-0.324	0.133	-0.067	-0.062
<i>p</i> -value	0.000	0.000	0.000	0.000	0.000	0.000
Social Contribution	0.458	0.179	-0.444	0.136	-0.103	-0.011
<i>p</i> -value	0.000	0.000	0.000	0.000	0.000	0.479
Security and Safety	0.335	0.093	-0.270	0.092	-0.070	-0.023
<i>p</i> -value	0.000	0.000	0.000	0.000	0.000	0.138
Internal Governance	0.226	0.054	-0.192	0.049	-0.037	-0.001
<i>p</i> -value	0.000	0.001	0.000	0.002	0.019	0.969
Environment	0.496	0.212	-0.466	0.167	-0.152	-0.001
<i>p</i> -value	0.000	0.000	0.000	0.000	0.000	0.967

Panel B. Spearman Rank Correlation between CSP and Control Variables

	lnTA	ROA	DR	GTA	Turn	Vol3Y	BPR	FDR
Composite CSP	0.664	0.080	0.017	0.049	0.409	-0.060	-0.321	0.086
<i>p</i> -value	0.000	0.000	0.276	0.002	0.000	0.000	0.000	0.000
Employee Relations	0.438	0.066	0.030	0.033	0.264	-0.035	-0.230	0.074
<i>p</i> -value	0.000	0.000	0.056	0.033	0.000	0.026	0.000	0.000
Social Contribution	0.604	0.058	0.039	0.061	0.337	-0.067	-0.276	0.047
<i>p</i> -value	0.000	0.000	0.014	0.000	0.000	0.000	0.000	0.003
Security and Safety	0.361	0.068	-0.050	0.023	0.255	-0.057	-0.216	0.103
<i>p</i> -value	0.000	0.000	0.001	0.149	0.000	0.000	0.000	0.000
Internal Governance	0.271	0.036	-0.002	0.015	0.192	0.001	-0.150	-0.017
<i>p</i> -value	0.000	0.023	0.881	0.325	0.000	0.933	0.000	0.281
Environment	0.652	0.043	0.048	0.044	0.378	-0.057	-0.255	0.105
<i>p</i> -value	0.000	0.006	0.002	0.005	0.000	0.000	0.000	0.000

Note: lnTA: natural logarithm of total asset (in million JPY), ROA: Return of Asset, DR: Debt ratio, GTA: Growth rate in total asset, Turn: Monthly turnover, Vol3Y: Past 3 year volatility of monthly stock returns, BPR: Book-to-price ratio, FDR: Foreign dependency ratio defined as (sales in foreign countries)/(total sales).

Table 6. Effects of Stock Ownership Structure on the CSP**Panel A. %Shares Held by Foreign Corporations**

	CSP	EMP	SC	SS	IG	ENV
Intercept	1.929 ***	0.844 ***	0.867 ***	0.951 ***	0.376 ***	0.777 ***
Foreign Corp.	0.014 ***	0.006 ***	0.011 ***	0.004 ***	0.005 ***	0.006 ***
ROA	-0.001	0.005	-0.004	0.001	-0.006 *	0.000
DR	-0.002 **	0.000	0.000	-0.001 *	-0.002 **	0.000
GTA	-0.005 *	-0.003	0.000	-0.001	-0.001	-0.003 *
Turn	0.002 **	0.002 ***	-0.001	0.002 ***	0.000	0.001 *
Vol3Y	-0.034 ***	-0.032 ***	-0.012 ***	-0.028 ***	0.007 *	-0.016 ***
BPR	-0.002 ***	-0.001 ***	-0.001 ***	-0.001 ***	-0.001 ***	0.000
FDR	0.003 **	0.001	0.001	0.002 **	-0.001	0.001 *
Adjusted R^2	0.457 ***	0.200 ***	0.389 ***	0.206 ***	0.088 ***	0.397 ***

Panel B. %Shares Held by Japanese Corporations

	CSP	EMP	SC	SS	IG	ENV
Intercept	1.787 ***	0.740 ***	0.901 ***	0.994 ***	0.499 ***	0.668 ***
Japanese Corp.	0.008 ***	0.004 ***	0.005 ***	0.001	0.001	0.005 ***
ROA	0.000	0.007	-0.005	-0.001	-0.006 *	0.000
DR	-0.005 ***	0.000	-0.002 ***	-0.002 ***	-0.002 ***	-0.001 **
GTA	-0.006 **	-0.005 **	0.000	-0.002	0.000	-0.003 **
Turn	0.005 ***	0.003 ***	0.001	0.003 ***	0.000	0.002 ***
Vol3Y	-0.037 ***	-0.032 ***	-0.014 ***	-0.029 ***	0.007 *	-0.016 ***
BPR	-0.002 ***	-0.001 ***	-0.001 ***	-0.001 ***	-0.001 ***	0.000
FDR	0.005 ***	0.003 **	0.002 *	0.003 ***	0.000	0.002 ***
Adjusted R^2	0.440 ***	0.190 ***	0.376 ***	0.190 ***	0.082 ***	0.399 ***

Panel C. %Shares Held by Individual Investors

	CSP	EMP	SC	SS	IG	ENV
Intercept	2.522 ***	1.123 ***	1.335 ***	1.104 ***	0.558 ***	1.067 ***
Individuals	-0.012 ***	-0.005 ***	-0.008 ***	-0.002 **	-0.002 ***	-0.007 ***
ROA	-0.001	0.004	-0.005	0.002	-0.007 **	-0.001
DR	-0.004 ***	0.000	-0.001 *	-0.002 ***	-0.002 ***	-0.001
GTA	-0.006 **	-0.004 *	0.000	-0.002	0.000	-0.003 **
Turn	0.004 ***	0.003 ***	0.000	0.003 ***	0.000	0.002 ***
Vol3Y	-0.034 ***	-0.033 ***	-0.012 ***	-0.026 ***	0.006	-0.016 ***
BPR	-0.002 ***	-0.001 ***	-0.001 ***	-0.001 ***	-0.001 ***	0.000
FDR	0.004 ***	0.002	0.002 *	0.002 ***	-0.001	0.002 **
Adjusted R^2	0.468 ***	0.202 ***	0.404 ***	0.216 ***	0.089 ***	0.408 ***

Note: [Dependent Variables]- CSP: Composite CSP, EMP: Employee relations, SC: Social contribution, SS: Security of the firm and product safety, IG: Internal governance and risk management, ENV: Environment preservations.

[Independent Variables]- ROA: Return of Asset, DR: Debt ratio, GTA: Growth rate in total asset, Turn: Monthly turnover, Vol3Y: Past three year historical volatility of monthly stock returns, BPR: Book-to-price ratio, FDR: Foreign dependency ratio defined as (sales in foreign countries)/(total sales).

*** $p < .01$, ** $p < .05$, * $p < .10$.

Table 7. Effects of Change in Stock Ownership on the CSP**Panel A. Past 5 Years Increase in Shares Held by Foreign Corporations**

	CSP	EMP	SC	SS	IG	ENV
Intercept	2.373 ***	1.072 ***	1.209 ***	1.054 ***	0.536 ***	0.958 ***
Δ FOR	-0.001	0.004	-0.002	-0.004 *	0.001	-0.004 *
ROA	0.002	0.004	-0.002	0.004	-0.007 **	0.002
DR	-0.005 ***	-0.001	-0.002 **	-0.002 ***	-0.002 ***	-0.001 *
GTA	-0.005 **	-0.004	0.000	-0.002	0.000	-0.003 *
Turn	0.003 ***	0.003 ***	0.000	0.003 ***	0.000	0.002 ***
Vol3Y	-0.035 ***	-0.033 ***	-0.013 ***	-0.024 ***	0.006	-0.017 ***
BPR	-0.003 ***	-0.001 ***	-0.001 ***	-0.001 ***	-0.001 ***	0.000
FDR	0.004 ***	0.002	0.002	0.002 ***	-0.001	0.002 **
Adjusted R^2	0.466 ***	0.200 ***	0.392 ***	0.225 ***	0.087 ***	0.400 ***

Panel B. Past 5 Years Increase in Shares Held by Japanese Corporations

	CSP	EMP	SC	SS	IG	ENV
Intercept	2.363 ***	1.062 ***	1.207 ***	1.063 ***	0.529 ***	0.952 ***
Δ JPN	-0.007 **	-0.002	-0.003 *	0.002	-0.001	-0.009 ***
ROA	0.002	0.005	-0.002	0.003	-0.007 **	0.001
DR	-0.005 ***	-0.001	-0.002 **	-0.002 ***	-0.002 ***	-0.001 *
GTA	-0.004 *	-0.003	0.000	-0.002	0.000	-0.002
Turn	0.003 ***	0.003 ***	0.000	0.003 ***	0.000	0.001 **
Vol3Y	-0.033 ***	-0.033 ***	-0.012 ***	-0.026 ***	0.006	-0.015 ***
BPR	-0.003 ***	-0.001 ***	-0.001 ***	-0.001 ***	-0.001 ***	0.000
FDR	0.004 ***	0.002	0.002	0.002 ***	-0.001	0.002 **
Adjusted R^2	0.465 ***	0.200 ***	0.391 ***	0.219 ***	0.088 ***	0.399 ***

Panel C. Past 5 Years Increase in Shares Held by Individual Investors

	CSP		EMP		SC		SS		IG		ENV	
Intercept	2.367	***	1.073	***	1.207	***	1.043	***	0.529	***	0.935	***
Δ IND	0.007	***	0.000		0.004	**	0.001		0.001		0.010	***
ROA	0.004		0.005		-0.002		0.004		-0.007	**	0.003	
DR	-0.005	***	-0.001		-0.002	***	-0.002	***	-0.002	***	-0.001	**
GTA	-0.004	*	-0.003		0.000		-0.002		0.000		-0.002	
Turn	0.003	***	0.003	***	0.000		0.002	***	0.000		0.001	***
Vol3Y	-0.033	***	-0.033	***	-0.011	***	-0.023	***	0.006		-0.015	***
BPR	-0.003	***	-0.001	***	-0.001	***	-0.001	***	-0.001	***	0.000	
FDR	0.003	**	0.002		0.001		0.002	***	-0.001		0.002	**
Adjusted R^2	0.467	***	0.199	***	0.393	***	0.229	***	0.088	***	0.402	***

Note: [Dependent Variables] CSP: Composite CSP, EMP: Employee relations, SC: Social contribution, SS: Security of the firm and product safety, IG: Internal governance and risk management, ENV: Environment preservations.

[Independent Variables] ROA: Return of Asset, DR: Debt ratio, GTA: Growth rate in total asset, Turn: Monthly turnover, Vol3Y: Past 3 year historical volatility of monthly stock returns, BPR: Book-to-price ratio, FDR: Foreign dependency ratio defined as (sales in foreign countries)/(total sales).

*** p < .01, ** p < .05, *p < .10.

Table 8. Impact of Changes in Shareholdings onto the Progress of CSR**Panel A. Case of Foreign Investors**

		3 Years Increase in Shares held by Foreign Investors			
2008-2011		(1) 2005-2008	(2) 2006-2009	(3) 2007-2010	(4) 2008-2011
Δ CSP	Coef.	0.016	0.019	0.016	0.011
	<i>p</i> -value	0.019	0.105	0.085	0.275
Δ EMP	Coef.	0.023	0.035	0.024	0.019
	<i>p</i> -value	0.008	0.014	0.050	0.128
Δ SC	Coef.	0.003	0.008	0.009	0.008
	<i>p</i> -value	0.503	0.178	0.213	0.260
Δ SS	Coef.	0.003	-0.001	0.000	0.001
	<i>p</i> -value	0.352	0.907	0.885	0.738
Δ IG	Coef.	0.003	-0.004	-0.001	0.003
	<i>p</i> -value	0.534	0.637	0.894	0.619
Δ ENV	Coef.	0.002	0.007	0.006	0.003
	<i>p</i> -value	0.733	0.382	0.293	0.661

Panel B. Case of Japanese Corporations

		3 Years Increase in Shares held by Japanese Corporations			
2008-2011		(1) 2005-2008	(2) 2006-2009	(3) 2007-2010	(4) 2008-2011
Δ CSP	Coef.	-0.005	-0.007	-0.013	0.009
	<i>p</i> -value	0.377	0.415	0.361	0.353
Δ EMP	Coef.	-0.015	-0.025	-0.029	-0.002
	<i>p</i> -value	0.079	0.018	0.195	0.851
Δ SC	Coef.	0.003	0.001	0.007	0.013
	<i>p</i> -value	0.331	0.701	0.312	0.031
Δ SS	Coef.	-0.002	0.003	-0.003	0.001
	<i>p</i> -value	0.437	0.288	0.535	0.710
Δ IG	Coef.	-0.005	-0.001	0.006	0.004
	<i>p</i> -value	0.127	0.775	0.448	0.491
Δ ENV	Coef.	0.003	-0.004	-0.011	-0.008
	<i>p</i> -value	0.426	0.322	0.128	0.133

Panel C. Case of Individual Investors

2008-2011		3 Years Increase in Shares held by Individual Investors			
		(1) 2005-2008	(2) 2006-2009	(3) 2007-2010	(4) 2008-2011
Δ CSP	Coef.	-0.005	-0.004	-0.008	-0.013
	<i>p</i> -value	0.391	0.608	0.318	0.113
Δ EMP	Coef.	-0.002	-0.001	-0.003	-0.010
	<i>p</i> -value	0.837	0.914	0.805	0.394
Δ SC	Coef.	-0.004	-0.005	-0.011	-0.015
	<i>p</i> -value	0.106	0.137	0.029	0.004
Δ SS	Coef.	0.000	-0.003	0.001	-0.002
	<i>p</i> -value	0.958	0.243	0.742	0.543
Δ IG	Coef.	0.003	0.003	-0.004	-0.005
	<i>p</i> -value	0.357	0.507	0.508	0.352
Δ ENV	Coef.	-0.004	0.000	0.003	0.005
	<i>p</i> -value	0.202	0.931	0.550	0.208

Note: [Dependent Variables]: Δ CSP, Change in the level of composite CSP in 3 years starting from October 2008 through September 2011, Δ EMP: Change in employee relations, Δ SC: Change in social contribution, Δ SS: Change in security of the firm and product safety, Δ IG: Change in internal governance and risk management, Δ ENV: change in environment preservations.

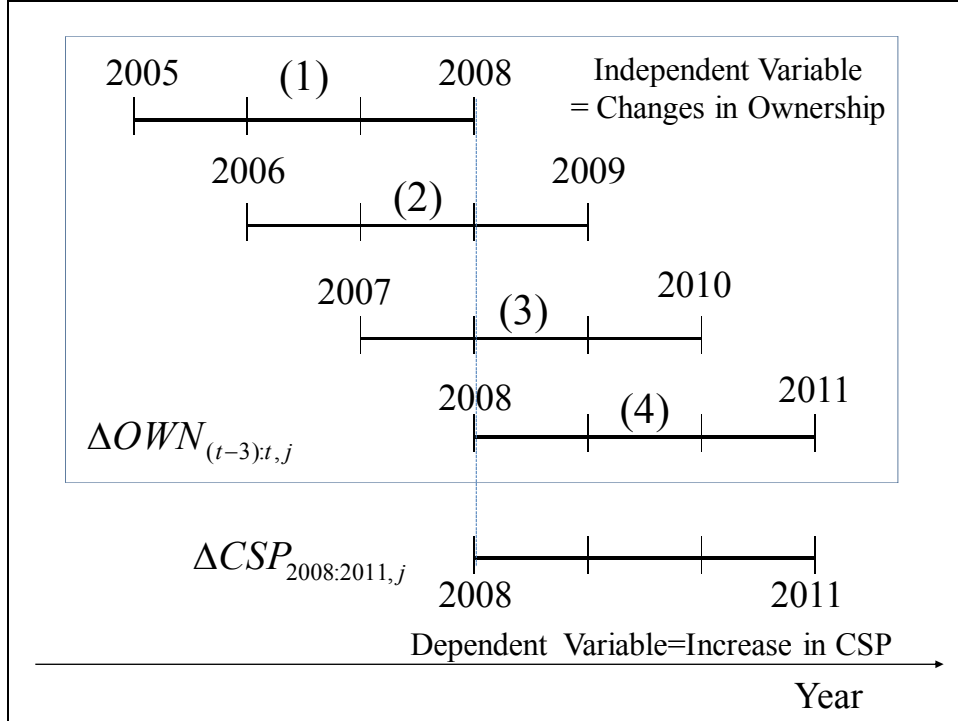
Table A1. Adopted Questions from CSR Survey of Toyo Keizai CSR Database

Numbers in the column named 'Weights' are the contribution rate (in %) of CSP dimensional indices and loadings of first principal component as of September 2010.

	Evaluation Point	Weights
Employee Relations (EMP)		29.478
1	Ratio of female employees to total employees	-0.192
2	Ratio of female managers to total managers	-0.304
3	Ratio of physically handicapped employees to total employees	-0.282
4	Ratio of old employees (60 years old and over) to total employees	-0.252
5	Average years of continuous employment	-0.162
6	Labor turnover rate	-0.349
7	Average salary for a 30 years old	-0.312
8	Overtime hours	-0.328
9	Overtime wage per hour	-0.341
10	Rate of paid holidays taken	-0.344
11	Frequency rates of industrial injuries	-0.223
12	Flexible work arrangement (flex-time, short-time working, on-site child care, etc.)	-0.219
13	Incentive program (internal venture, bonus plan, education program etc.)	-0.208
Social Contribution (SC)		51.736
1	Comprehensive evaluation (CSR department, director in charge, CSR document etc.)	-0.438
2	Corporate ethics (guidelines, business ethics document, etc.)	-0.263
3	Department of social actions	-0.703
4	Social expenditure per employee	-0.430
5	Matching gift and volunteer grant programs	-0.243

Table A1. (Continued)

	Evaluation Point	Weights
Security of the Firm and Product Safeness (SS)		45.279
1	Specialty divisions on investor relations, consumer affairs, cooperation with NPO.	-0.268
2	Whistle-blower policy	-0.111
3	Specialty department for managing quality and safety of products and services	-0.910
4	Ratio of domestic business offices with ISO9000 certification	-0.212
5	Ratio of foreign business offices with ISO9000 certification	-0.206
Internal Governance and Risk Management (IG)		35.766
1	Comprehensive evaluation (whistle-blower protection, CSR manual, complaint DB, etc.)	-0.151
2	Existence/nonexistence of compliance department	-0.436
3	Existence/nonexistence of CIO	-0.594
4	Existence/nonexistence of CFO	-0.620
5	Information systems (security policy, internal/external auditing etc.)	-0.204
6	Comprehensive evaluation (fair trade, compliance, closedown in the past 3 years, etc.)	-0.093
Environment Preservations (ENV)		49.216
1	Environmental planning department, director in charge of environmental affairs, etc.	-0.496
2	Environmental accounting, disclosure and auditing.	-0.587
3	Ratio of environment related business to total revenue	-0.427
4	Promotion of procurement of eco-friendly goods and services	-0.466
5	Ecolabelling (ISO14020 series etc.)	-0.036
6	Environment related compliance (environmental disasters, law violation, etc.)	-0.090



$$\begin{aligned}
 \Delta CSP_{j,2008:2011} = & \alpha + \beta \Delta OWN_{j,(t-3):t} + \sum_{i=1}^7 \gamma_i CV_{i,j,t} \\
 & + \sum_{i=2}^3 \delta_i DSize_{i,j,t} + \sum_{i=2}^6 \lambda_i DSector_{i,j} + \sum_{t=2007}^{2010} \eta_t DYear_{j,t} + \varepsilon_{j,t}.
 \end{aligned} \tag{3}$$

Figure 1. Regression Model to Test the Relationship between ΔOWN and ΔCSP